

# University of Colombo, Sri Lanka

## Faculty of Arts

### Masters in Economics- 2016/2017

#### Final Examination- Semester II

#### MECON 505: Public Finance

Answer Only Five (05) Questions

Time Allowed: Three (03) Hours

Each question carries equal marks

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1.
  - a) "Public expenditure policy of the government will be instrumental in achieving rapid development". Do you think that extensive welfarism in Sri Lanka was implemented in line with the above argument? Explain your answer.
  - b) "Wagner's law suggests that the ratio of government spending to GDP tends to grow with economic development". Critically examine the above statement using empirical evidence from Sri Lanka.
  - c) Do you think that the current level of allocations for economic and social services is sufficient in Sri Lanka? Explain your answer by focusing the experience of developed and fast growing countries.
  - d) It is argued that "increased investments on education and reforms is vital to escape the *Middle Income Trap*. Do you think that this arguments is relevant for the Sri Lankan context? Explain your answer with empirical evidence.
2.
  - a) "There is a polarization among economists on the nexus between public debt and economic growth". Explain the different arguments put forwarded by the economists on the nexus between public debt and economic growth.
  - b) There are possible positive and negative impacts of debt-finance investment. Critically analyse the implications of debt-finance investment in Sri Lanka focusing the post 2006 period.
  - c) Do you think that the financial debt could lead to social debt in Sri Lanka? Critically present your argument.
  - d) "Government debt-to-GDP ratio remains very high in Sri Lanka when compared to other frontier markets and peer countries in the region". What would be the possible implications of higher debt ratio on the future development of the country?

3.

- a) Briefly explain the fundamental objectives of taxation.
- b) It is important for any country to adhere certain well-defined principles for designing and implementing tax system. Explain such principles for designing and implementing an efficient tax system in Sri Lanka.
- c) What are the measures taken by the new government to expand the tax revenue in Sri Lanka?
- d) "Even though there are good signs in increasing tax revenue in Sri Lanka, the expansion of direct tax base in line with the theory and the empirical evidence from developed and fast growing developing countries is a lingering issue". Do you agree with this statement? Explain your answer.

4.

- a) What are the basic principles of good governance in achieving the goals of public finance?
- b) What is the relationship between good governance and taxation?
- e) Shoup (1988) has identified certain characteristics for an ideal VAT? Do you think that some of the characteristics identified by Shoup are applicable for Sri Lanka as well? Explain your answer.
- c) "Though the VAT is considered theoretically as a money machine, the performance of VAT is not impressive so far". What would be the possible reasons behind the poor performance of VAT in Sri Lanka?

5.

- a) Define the concept 'market failure' and identify the factors that could contribute to a market failure in an economy.
- b) Explain the external costs and the external benefits which lead to market failure and examine the role of a government in correcting such market failures.
- c) How do you distinguish public goods and private goods and explain why the government should provide pure public goods?
- d) How are Lindhal and Bowen Models of benefit approach used to explain the allocation of burden of public good provision?

6.

- a) Define the term "public private partnership-(PPP)"
- b) Identify the fundamentals of PPPs and explain the possible benefits of PPPs.
- c) What are the previous and current experience of Sri Lanka in relation to PPPs?
- d) Why does Sri Lanka need PPPs in several economic sectors and do you think that clear policy interventions are needed to make PPP as a successful approach to achieve desired targets?

7.

- a) How do you assess the existing system for intergovernmental financial relations in Sri Lanka?
- b) "Allocation of funds among the provinces are effected through several grants". Identify such grants and examine how are these grants utilised by the provincial councils in Sri Lanka.
- c) Do you think that provincial council system is successful in economic terms? Give reasons for your answer.
- d) Present possible policy recommendations for an effective financial power devolution between the central government and the provincial councils to achieve balance regional development in Sri Lanka.

8. Write explanatory notes on any **FOUR (04)** of the following

- a) PAYE tax in Sri Lanka.
- b) Purpose of budget.
- c) Budget process in Sri Lanka.
- d) Merits and demerits of direct and indirect taxes.
- e) Rising crude oil price in the world market and its implications on the Sri Lankan economy.
- f) Characteristics of good governance.

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